

VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY WILLIAMSBURG, VIRGINIA

Report No. 326

October, 1987

Business in Virginia September, 1987 Data

New car registrations in September continued their headlong plunge compared to last year. We had expected an 8 to 10 percent decline. The actual result was a decrease of 24.2 percent statewide. All seventeen of the urban areas we cover experienced declines, with the smallest drop being 9.3 percent in the Winchester area and decreases of at least 19 percent everywhere else. Automobile demand definitely is well below last year's levels, down almost 10 percent for the first three quarters of 1987 versus the same period in 1986. The fourth quarter outlook prior to the record stock market plunge was for new car demand to be lower than last year, especially in December.

National retail sales data for September show a general decline in durable goods demand, -7.8 percent compared to September 1986. Low auto sales accounted for most of the drop. However, construction-related demand growth nearly stopped in August and September nationally. For September, the nation saw no growth in sales by building material and hardware stores, and only a 0.3 percent increase in sales by furniture, home furnishings, and equipment stores. By contrast, stores selling nondurable goods (such as apparel) experienced a 5.3 percent September gain.

Virginia consumers seem to be following the national pattern. Our own retail sales sample consists mainly of general merchandise stores selling primarily nondurable goods. The lagged retail sales data from the Virginia Department of Taxation represents the sales of all types of dealers paying the general sales tax, including building material, furniture, and equipment stores. In August our sample recorded a 0.2 percent decrease statewide in sales per store. The August taxable sales data now available showed a 6.6 percent decline. We believe the larger drop in the taxable sales figures came from a pronounced decline in purchases of construction-related durable goods.

General merchandise sales in Virginia did rebound in September, growing 2.7 percent. Labor Day being a week later this year than last did boost September sales, from tourists as well as residents. However, we continue to feel any retail sales growth is coming mainly from nondurable goods demand, with durable goods demand remaining weak.

Building permits jumped in some areas in September, yielding a statewide level for our sample only 0.9 percent below last year. The cumulative year-to-date result is an 11.5 percent decline, still pointing to lower construction activity.

We also have witnessed two monthly declines in bank debits: -9.0 percent in August and -3.6 percent in September. This is another sign of slowing economic growth.

Chart I
Nine Selected Business & Economic
Indicators Percentage Change

Percentage Change September, 1987 from September, 1986

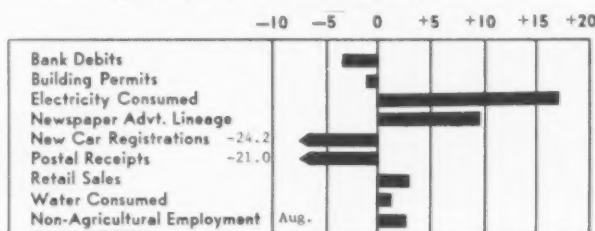
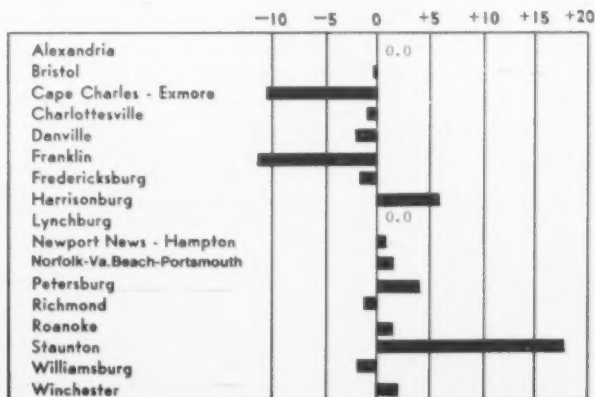


Chart II
City Indices

Percentage Change September, 1987 from September, 1986



SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I September 1987

Monthly Index Number Comparisons of Current Month to
Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGISTRATIONS	NON AGRICULTURAL EMPLOYMENT†	WATER CONSUMED	RETAIL SALES‡	POSTAL RECEIPTS
The State		388.9	168.5	160.7	113.4	170.6	13.8	98.4	182.4	344.4
Alexandria	201.3	438.9	323.3	181.4	N.A.	150.4	184.3	105.9	262.4	N.A.
Bristol	120.7	N.A.	N.A.	100.1	73.2	113.8	113.1	151.4	138.0	N.A.
Cape Charles - Exmore	136.7	N.A.	397.5	152.9	N.A.	95.9	N.A.	N.A.	123.4	201.3
Charlottesville	209.6	151.7	404.6	147.6	N.A.	119.7	103.6	140.9	287.3	303.2
Danville	127.8	N.A.	518.8	123.1	138.1	86.6	95.3	87.6	N.A.	237.8
Franklin	130.1	N.A.	165.7	117.6	116.0	100.0	N.A.	95.1	128.1	227.9
Fredericksburg	352.4	198.8	228.4	N.A.	173.4	178.5	N.A.	89.3	309.0	1098.9
Harrisonburg	201.6	272.3	278.7	N.A.	159.2	102.2	N.A.	136.1	267.8	301.4
Lynchburg	246.2	320.0	145.4	133.6	N.A.	106.4	96.4	139.2	219.8	834.8
Newport News - Hampton	146.1	N.A.	242.8	147.2	40.1	119.1	139.8	125.5	198.9	N.A.
Norfolk - Portsmouth	201.2	506.4	204.3	184.3	N.A.	115.9	N.A.	91.5	271.8	N.A.
Petersburg	145.8	273.4	663.4	N.A.	34.0	84.2	128.1	115.6	193.5	223.8
Richmond	178.6	416.1	N.A.	163.4	129.7	116.2	N.A.	110.6	200.2	308.6
Roanoke	184.3	361.9	140.0	116.3	180.0	82.4	124.4	103.1	240.3	331.7
Staunton	171.6	170.4	222.7	N.A.	86.0	92.9	N.A.	N.A.	184.7	296.4
Williamsburg	201.3	163.1	473.2	199.0	N.A.	166.1	N.A.	110.0	196.3	351.0
Winchester	170.7	396.6	64.3	140.9	215.7	155.6	N.A.	N.A.	N.A.	N.A.

TABLE II September, 1987

Percentage Change from same month last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGISTRATIONS	August NON AGRICULTURAL EMPLOYMENT†	WATER CONSUMED	RETAIL SALES‡	August RETAIL SALES §
The State		-3.6	-0.9	17.3	9.2	-24.2	2.6	0.9	2.7	-6.6
Alexandria	0.0	24.9	92.2	20.2	N.A.	-19.8	4.3	13.1	-0.4	-16.5
Bristol	-0.1	N.A.	N.A.	10.4	-0.8	-25.1	3.9	16.9	-3.2	-11.6
Cape Charles - Exmore	-10.3	N.A.	92.8	19.6	N.A.	-25.3	N.A.	-36.1	-5.5	-13.7
Charlottesville	-1.0	-51.3	76.7	19.8	N.A.	-40.1	2.0	3.1	7.0	-13.6
Danville	-2.0	N.A.	539.7	4.6	21.8	-38.6	1.2	4.6	N.A.	-5.6
Franklin	-11.3	N.A.	-16.5	6.1	-1.5	-66.5	N.A.	-12.7	-9.4	12.3
Fredericksburg	-1.5	11.3	143.7	N.A.	12.9	-28.4	N.A.	19.2	7.8	-16.4
Harrisonburg	5.9	-13.9	-48.9	N.A.	24.6	-20.2	N.A.	14.3	5.5	6.3
Lynchburg	0.0	-19.3	17.4	10.2	N.A.	-27.2	1.7	11.4	0.9	1.5
Newport News - Hampton	0.5	N.A.	-48.4	14.4	6.0	-19.6	2.5	-5.9	6.5	-12.3
Norfolk - Va. Beach - Portsmouth	1.5	-6.9	-0.6	28.3	N.A.	-22.2	0.5	0.5	2.4	-8.4
Petersburg	4.0	2.3	115.2	N.A.	20.4	-27.6	3.6	20.1	9.0	-10.8
Richmond	-1.1	0.0	N.A.	9.8	11.0	-26.7	N.A.	-3.5	-0.7	-2.2
Roanoke	1.5	-19.2	52.8	12.9	8.8	-28.4	3.2	3.3	5.1	-1.7
Staunton	18.1	18.3	-30.6	N.A.	10.4	-29.2	N.A.	N.A.	39.1	10.1
Williamsburg	-2.0	-9.9	20.0	22.0	N.A.	-23.4	N.A.	-14.6	11.1	-31.1
Winchester	1.8	13.5	-25.2	7.2	3.3	-9.3	N.A.	N.A.	N.A.	-8.9

TABLE III

Percentage Change January - September from same period last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGISTRATIONS	Jan.-Aug. NON AGRICULTURAL EMPLOYMENT†	WATER CONSUMED	RETAIL SALES‡	Jan.-Aug. RETAIL SALES §
The State		12.6	-11.5	8.2	3.1	-9.7	2.6	0.3	3.4	7.6
Alexandria	2.6	40.9	77.7	12.4	N.A.	-8.8	3.8	2.3	1.1	7.4
Bristol	-3.3	N.A.	N.A.	0.6	-4.7	-19.1	5.1	7.1	-6.4	0.7
Cape Charles - Exmore	0.7	N.A.	-12.8	3.6	N.A.	-22.9	N.A.	1.1	4.4	10.1
Charlottesville	1.1	-4.0	41.6	9.7	N.A.	-15.9	0.3	1.0	1.9	8.1
Danville	-1.6	N.A.	8.1	6.7	6.6	-17.3	1.6	-5.9	N.A.	0.2
Franklin	1.1	N.A.	-32.9	8.2	4.3	-36.6	N.A.	1.6	-1.4	35.8
Fredericksburg	6.9	39.1	149.6	N.A.	12.9	-6.3	N.A.	12.4	6.6	9.2
Harrisonburg	4.0	-7.1	21.9	N.A.	6.2	-15.3	N.A.	7.2	4.7	15.9
Lynchburg	-0.1	-11.0	15.8	5.9	N.A.	-12.5	1.0	-6.1	1.6	6.1
Newport News - Hampton	1.4	N.A.	-36.1	5.5	3.9	-8.9	2.8	-4.5	2.7	5.8
Norfolk - Va. Beach - Portsmouth	3.1	21.3	-24.6	6.8	N.A.	-4.9	N.A.	2.2	4.5	3.3
Petersburg	3.5	10.0	-21.4	N.A.	N.A.	-8.1	3.9	6.0	6.1	4.7
Richmond	2.6	15.4	N.A.	7.8	5.1	-6.4	N.A.	-0.5	1.2	9.9
Roanoke	0.2	-16.9	7.0	2.6	-1.0	-19.6	3.6	0.4	5.3	-0.1
Staunton	13.2	13.1	26.9	N.A.	N.A.	-16.9	N.A.	N.A.	26.1	10.8
Williamsburg	3.3	15.3	-49.5	7.9	N.A.	-16.2	N.A.	-5.6	7.4	13.1
Winchester	0.8	-25.8	342.6	5.7	-1.6	-13.6	N.A.	N.A.	N.A.	11.8

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.

†Virginia Employment Commission data which lags behind current reports.

‡Preliminary data based on a survey sample.

§Revised data based on sales tax information which lags behind current reports.

¶Only total MSA data are available for these areas

N.A. - Not Available

O.O. - No Change

The nonagricultural employment figures for August showed a 2.6 percent increase in payroll jobs. Definite growth, but the fourth consecutive month the rate has been under 3 percent.

In sum, the recent monthly data for Virginia confirm that Virginia's growth is continuing to decelerate. The signs also have pointed towards further deceleration in the fourth quarter, with declines in some sectors such as construction and new car sales, even before the October stock market crash. With or without some additional restraint in consumer spending in the wake of the stock market gyrations, fourth quarter growth in Virginia will be modest. RLP

Joint Ventures for Affordable Housing

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City after city reports the need for providing more affordable housing. It is not merely that home ownership has gone beyond the reach of many, but that the economic wellbeing of many cities is tied to their ability to provide housing that is needed to attract workers, to shelter the elderly, to attract and to retain businesses, and generate tax revenues.

Many of these same cities — large and small — have substantial stocks of abandoned homes which impair the attraction of the city, its communities and neighborhoods, cost millions of dollars to protect and millions more in lost revenues since these abandoned units produce no tax dollars.

Rehabilitation of these housing stocks has been one major approach to bringing these unused houses back on the tax rolls and to answering the quest for affordable housing. Rehabilitation is not as expensive as new housing starts, and rehabilitation that includes the public and nonprofit sectors usually assures that some of the units will be made available to the needy, elderly and the young. Rehabilitation also tends to retain the character of a neighborhood — often an important consideration.

In recent decades, a substantial part of rehabilitation has been financed by the federal government. With budget tightening, at least two developments have occurred in financing rehabilitation. Government agencies dependent on federal monies have become more efficient, and nonprofit groups have become more imaginative in working with the private sector to provide housing with limited federal dollar contributions.

An example of the first is the Newport News Redevelopment and Housing Authority which was named in 1986 by the U.S. Department of Housing and Urban Development as an outstanding manager of public and assisted housing. This Authority, through contract with the City of Newport News, administers federal dollars which are used to make loans to homeowners for housing rehabilitation and matching grants for the rehabilitation of rental units.

An example of the second approach is an agreement that involves the City of New York, the State of New York, Enterprise Foundation (a nonprofit), its subsidiary Social Investment Corporation (a for-profit), the Federal National Mortgage Association (a for-profit) and eligible community development corporations (nonprofits) and their for-profit subsidiaries. Here is how it will work.

The City of New York has agreed to provide 1,000 rental units which it has in its possession because their owners have failed to pay taxes and which are presently unfit for rental. As is, the City not only loses because these properties are not on the tax roll, but the abandoned properties are havens for crime and fire and are a liability on the City.

The recycling process will begin with a community development organization submitting a proposal to the City and State to get the units rehabilitated and eventually occupied and managed.

The City and the State will make a loan at 1 percent for the initial investment in the rehabilitation project. Because the loans provide that regular payments of the principal do not have to be made, future rent charges can be held comparatively low and yet some cashflow may be provided.

The community development organization then submits its proposal to Enterprise Foundation, a nonprofit, for evaluation. Should Enterprise conclude that this is a viable project which can gain private investor interests, it passes it on to Social Investment Corporation (a for-profit subsidiary of Enterprise) to raise the remainder of the funds needed to do the rehabilitation.

Now, the remainder of the costs of rehabilitation (usually a minimum of 25 percent) is obtained from private sources. The Social Investment Corporation will sell equity or ownership interests to for-profit corporations. Thus, the Federal National Mortgage Corporation (Fannie Mae) has agreed to invest up to \$28,000,000 through the purchase of ownership interests in these properties. The proceeds from the sale of these interests to Fannie Mae by Social Investment Corporation will provide the additional funds needed for rehabilitating these and future units.

Notice that there is no gift. Fannie Mae becomes a limited partner in a deal in which ultimately the community development corporation will form a subsidiary to be the general partner.

By going this route rather than making itself, a nonprofit, the general partner, the community development corporation avoids financial disaster if the project fails. It also puts itself in a superior position to avoid mixing the daily trials and tribulations of running a nonprofit with those of running a hard and difficult business.

What are the incentives for each of these partners? Yes, the City does get increased taxes and so does the State. The neighborhoods and people get better housing. The private developers who do the physical rehabilitation get jobs and profits. Enterprise Foundation gets to fulfill its mission and may obtain dividends from Social Investment Corporation. The lat-

ter gets a fee for syndicating the interests and for putting together the deal.

What does the private investor such as Fannie Mae get? It gets tax credits. It may reduce its total tax liability to the federal government for each of the next nine years by 9 percent of the qualified rehabilitation costs. Almost all of the tax credits generated by the project will go to the private investors.

Let us take another look at this financing structure. It is particularly attractive to corporations or individuals seeking tax credits. The typical private real estate investment offers possibilities of returns through cashflow (monthly net income through rents that exceed operating costs), capital appreciation (or capital gains when the property is sold for a price higher than acquisition and rehabilitation costs), and tax benefits (principally through depreciation and tax credits). Traditionally, low income property offers limited opportunities for cashflow because rents are low relative to expenses and appreciation is limited or nonexistent. These New York properties are no exceptions.

But tax credits are important considerations because they do not rely on charging high rents to low-income persons in order for the private investor to get an attractive return. Investors not heavily dependent upon immediate cashflow can obtain an acceptable return by using the tax credits to increase their income retention after taxes.

Similar projects are being conducted in such cities as Cleveland, Ohio, Pittsburgh and Philadelphia, Pennsylvania and Oakland, California. Sohio and Sun

Oil Companies are among the for-profit firms that have made investments in these projects.

As I discussed in my book, Financial and Strategic Management for Nonprofit Organizations (Prentice-Hall 1987), in setting up a joint venture between a for-profit and a nonprofit, some general rules should be observed. The New York City case is an excellent example of these rules in action. (1) The nonprofit should not depart from its general charitable purpose. (2) The assets of the nonprofit should not be exposed to losses by the for-profit partners. (3) The nonprofits must remain outside of the control of the for-profit partner. (4) Revenues to the nonprofit must be dedicated solely to the advancement of its mission and cannot be distributed to individuals as owners. (5) There must be a demonstrative benefit or purpose from forming the partnership. (6) Both the for-profit partner and the nonprofit may realize profits from the venture, but only the for-profit partner may enter into this arrangement motivated primarily or exclusively by the profit motive.

As more managers and boards of directors of nonprofit organizations and for-profit firms come to appreciate that there are mutual benefits from these strategies and as governments come to appreciate their role as a facilitator, more such ventures may be undertaken which, together with the traditional government approach, may enable us to meet the nation's housing needs.

I am grateful to Heidi Most of Enterprise for her cooperation. HJB

The Virginia Business Report is published monthly except in December by the Bureau of Business Research. The publication is provided free of charge as a public service. For information call the Bureau at (804) 253-4493.

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